

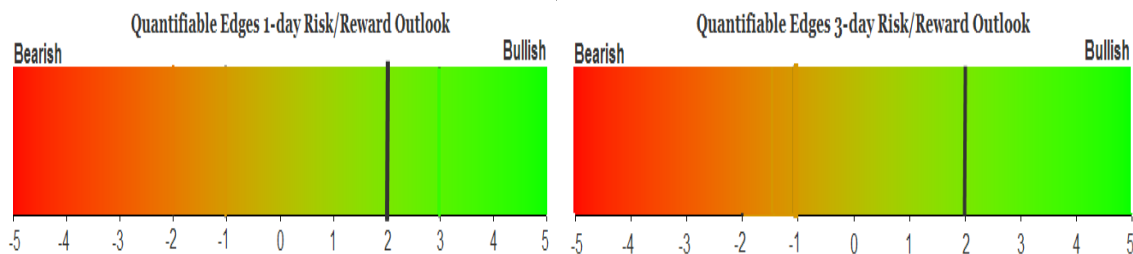
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 14, 2009

Volume 2 Issue 197

Market Overview



Summary of Recent Active Studies (see <http://QuantifiableEdges.blogspot.com> or Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Max Move
Active				
October 14, 2009	SPX 5 up then down while > 200ma	1-9 days	Bullish	2.10%
October 12, 2009	SPX 5 higher closes over 200ma.	1-5 days	Bullish	1.15%
Active - Long Term				
September 14, 2009	Nasdaq/S&P Lead/Lag Model		Bullish	
July 14, 2009	VIX:VXV drops below 0.9	2-5 months	Bearish	
Dropped Tonight				
October 13, 2009	SOX Up 1% Nasdaq Comp down	1 day	Bullish	

If the avg max move is achieved the study will appear in ***bold italic blue*** and no longer be active.

Short-term Outlook – updated 10/14

The Bottom Line

The Aggregator System went long at the close today – though just barely. Today’s pullback from overbought conditions appears bullish. The market is no longer outperforming expectations either. With the current setup it won’t take much to flip back to neutral should it go our way. With the low number of studies currently active we are still in a day-to-day market. I’m bullish but not aggressively so.

The Evidence

After a mild gap down and early morning selloff the S&P rallied up until noon where it made its high – near breakeven. The afternoon was choppy without any large moves. When the day was over the S&P and Dow were down slightly and the Nasdaq was up slightly. Breadth was somewhat negative. The NYSE Up Issues % came in at 41% and the Up Volume % also was 41%. Total volume increased over the last few days but still was below normal.

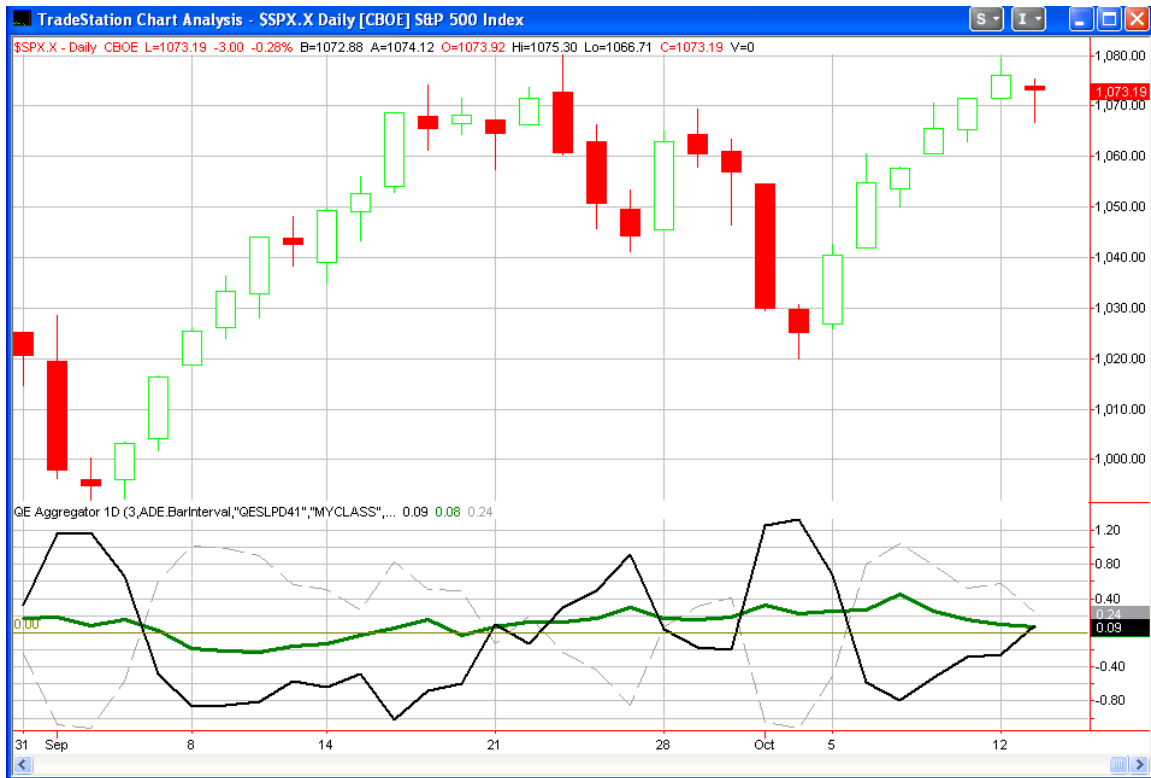
A few studies appeared tonight that looked at pullbacks from overbought conditions. I looked at this a number of ways tonight as well. One currently important aspect to consider that was not part of the previous tests is that we are now in a long-term uptrend. The below test was a good representation of the kinds of results I was seeing.

After closing higher for at least 5 days in a row, the SPX closes lower today but above its 200ma. Buy on close. Sell X days later. \$100k/trade. 1995 - present.										
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	59,570.40	48	40	8	83.33	1,796.38	-1,535.62	1.17	5.85	1,241.05
9	63,124.16	52	44	8	84.62	1,729.55	-1,622.03	1.07	5.86	1,213.93
8	54,427.47	52	38	14	73.08	1,902.66	-1,276.69	1.49	4.05	1,046.68
7	43,800.68	53	37	16	69.81	1,640.59	-1,056.33	1.55	3.59	826.43
6	36,206.46	55	36	19	65.45	1,568.84	-1,066.93	1.47	2.79	658.30
5	23,973.15	55	34	21	61.82	1,311.58	-981.93	1.34	2.16	435.88
4	21,838.08	55	32	23	58.18	1,235.01	-768.80	1.61	2.24	397.06
3	9,565.09	55	31	24	56.36	1,054.40	-963.38	1.09	1.41	173.91
2	4,112.11	55	32	23	58.18	811.44	-950.17	0.85	1.19	74.77
1	1,941.90	55	31	23	56.36	536.25	-638.33	0.84	1.13	35.31

48 of 55 instances (87%) closed higher than the entry price at some point in the next week.

The edge here is muted at first but gains steam after the 1st few days.

The [Aggregator](#) chart is updated below.



A significant change occurred in the Aggregator chart today as the black Differential line rose above zero. This illustrates the fact that while the market has risen slightly over the last few days, it has underperformed expectations. Meanwhile the green Aggregator line also remains above zero. This indicates a net positive expectation from the active studies over the next few days. A positive expectation here is no surprise since all of the active short-term studies are bullish. Both lines above zero are now suggesting an upside edge over the next few days.

This also triggered a long for the Aggregator System at the close today. The system page was updated about 10 minutes before the close to alert subscribers of the likely long signal. This page is typically updated 10-15 minutes before the close each day. A tweet is sent out as soon as it is updated to alert and remind subscribers of the update. To sign up to receive the tweets you may go to:

<http://twitter.com/qerob>

Subscribers may also note that the full Aggregator & Differential value history is now available on the Proprietary Data Download page. Those that wish to download it for testing or incorporating into their own strategies may do so. It will NOT be updated each night as the other data files are. Instead I will update it occasionally. Of course the Aggregator chart is shown each night in the letter. A link to the proprietary data download page is below.

<http://www.quantifiableedges.com/members/data.php>

Intermediate-term Outlook (2 weeks – 2 months)– updated 10/12 – somewhat bullish

The intermediate-term outlook is unchanged since the 10/12 Letter. That Letter may be accessed using the link below:

[2009-10-12 QE Subscriber Letter.pdf](#)

Catapult and Capitulative Breadth Statistics

(Catapult Presentation Part 1) (Catapult Presentation Part 2)

Open Catapult Triggers

none

Catapult for ETF's Trades

none

Broad Market Large Cap CBI - 0

Additional New Trade Ideas

A full listing of system triggers can be found at the [system triggers page](#) each night. I will cherry pick some of my favorite setups from the S&P 100 and ETF lists along with occasional other trade ideas to track below.

SPY – buy ¼ index position at \$107.45 limit ON CLOSE. Based on the short-term market outlook. Thanks in part to earnings news after the bell, futures are up nearly 1% late-night. I'm not eager to chase that, especially since we're near the top of the range here. If it comes back at this point I'd be inclined to let it play out tomorrow and then enter at the close if it should close down. I expect with 2 down days will see some additional bullish studies. Also a strong up day tomorrow could flip the Differential line and cause the Aggregator system to exit. Therefore I'm only interested in buying into a lower close as far as a tracked trade idea.

Active Trades Table

none.

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